

AGENDA: February 11, 2003

8.2

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: Accepting City of Mountain View
Comprehensive Annual Financial Report
and Various Other Related Reports

RECOMMENDATION

Accept, acknowledge and file the following financial and independent auditors' reports pertaining to Fiscal Year 2001-02:

- City of Mountain View Comprehensive Annual Financial Report and Independent Auditors' Report.
- Single Audit Report.
- Confirmation Report of Appropriations Limit Calculation.
- Bicycle/Pedestrian Projects.
- Client Communication Letter.

These reports are not attached as they were previously distributed to Council and are available for public review in the City Clerk's Office and the Library.

FISCAL IMPACT—None.

BACKGROUND AND ANALYSIS

In accordance with Section 1106 of the City Charter, the City Council employs an independent certified public accountant to examine the books, records, inventories and reports of all officers and employees who receive, handle or disburse public funds each fiscal year. The City Council hired Maze & Associates, an experienced firm specializing in audit services for California public agencies, to perform the functions of the independent certified public accountant as set forth in the City Charter for Fiscal Year 2001-02 to perform the duties specified in the Charter. J. Scott Maze, the chief executive officer for Maze & Associates, is a certified public accountant as well as 13 other members of his firm.

The Council received the Analysis of Fiscal Year 2001-02 Audited Financial Results in the First Quarter Budget Status Report presented to Council at the meeting of November 19, 2002. In that report, staff presented the financial position of the

significant funds of the City for budget purposes. Under Charter Section 1106, a final audit and report shall be submitted by the accountant to the City Council for the prior fiscal year. This memo transmits for Council acceptance the final audit and report for the fiscal year that ended June 30, 2002.

The final audit and report can be found at the beginning of the Financial section in the Comprehensive Annual Financial Report (CAFR). The CAFR contains a number of other items in addition to the final audit and report and was prepared by Maze & Associates on a generally accepted accounting principles basis and is in compliance with the independence requirement of the *Standards for Audit of Governmental Organizations, Programs, Activities and Function*, as published by the U.S. General Accounting Office. Associated Annual Independent Auditors' Reports and other related reports are also included in the CAFR.

Comprehensive Annual Financial Report and Annual Audit Reports

The CAFR includes all funds and account groups of the City of Mountain View (City) and is presented in five sections:

- Introductory;
- Financial;
- Statistical;
- The Mountain View Shoreline Regional Park Community; and
- The Mountain View Revitalization Authority.

The Introductory section contains a letter of transmittal, a directory of principal officials and an organizational chart of the City. The Financial section contains management's discussion and analysis (MD&A), the basic financial statements, notes to the financial statements, individual fund statements for which data are not provided separately within the basic financial statements, as well as the independent auditors' report on these financial statements and schedules. The Statistical section includes selected financial and demographic information, generally presented on a multi-year basis. In accordance with legal requirements, separate independent auditors' reports are presented with each of the combined financial statements of the Mountain View Shoreline Regional Park Community and the Mountain View Revitalization Authority, two blended component units of the City. In addition, the independent auditors' report on compliance is included for the Mountain View Revitalization Authority.

This is the first CAFR prepared using the new financial reporting requirements as prescribed by Governmental Accounting Standards Board (GASB) Standard No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local*

Governments. The first two basic financial statements, the statement of net assets and the statement of activities, now present information on a government-wide, full-accrual accounting basis. Fund information is also presented for major funds individually and nonmajor funds combined in a single column in the basic financial statement. Budgetary comparisons are presented as part of the basic financial statements for the major funds that legally adopt budgets.

Staff suggests attention be focused on the MD&A (Pages 3 through 19) and the notes to the basic financial statements (Pages 37-70). The MD&A is required as supplementary information to the basic financial statements. It provides a narrative introduction, overview and analysis of those statements. The notes to the basic financial statements in the Financial section provide required detailed disclosures and a description of the financial statements.

Compared to the prior year, total governmental fund revenues declined and expenditures were higher, resulting in a net decrease of \$12.9 million in fund balances. The General Fund balance declined \$4.7 million due to the use of \$5.0 million to reduce long-term debt. The bond call and debt refinancing completed last year resulted in a net reduction of \$24.8 million in governmental fund balances and decreased long-term debt. Under governmental generally accepted accounting principles, liabilities for long-term debt are not recorded in governmental funds but expenses related to the debt restructuring are. If the effect of the refinancing is excluded, governmental fund balances would have increased \$16.9 million and the General Fund balance would have been approximately the same as the prior year.

As this is the City's first annual report prepared under the new reporting requirements, easy comparison to prior-year reports is difficult due to the significant changes in accounting and reporting that have been implemented. However, staff's overall assessment is that the financial results shown in the report are mixed. Compared to Fiscal Year 2000-01, in governmental funds, including the General Fund, revenues were down and expenditures were up, resulting in lower fund balances. While the debt refinancing and bond call explains most of the decline in fund balances and the benefits of lower debt are not reflected in governmental funds, declining revenues and increasing expenditures are negative financial indicators. However, the Statement of Net Assets and Statement of Activities on Pages 22 and 23 indicates net assets from governmental- and business-type activities have increased during the year. The Statement of Net Assets is prepared on a different basis of accounting (full accrual) than other statements in the report (modified accrual) and the amounts shown reflect overall financial position, not amounts available for budgetary purposes. Thus, while the City's total net assets have increased, negative indicators are present in declining revenues and increasing expenditures.

Incorporated within the CAFR at the beginning of the Financial section is the annual Independent Auditors' Report as required by the City Charter, Section 1106. In the auditors' opinion, the basic financial statements present fairly, in all material respects, the financial position of the City as of June 30, 2002, without exception and is considered a "clean" opinion.

The CAFR is the major document used to communicate the City's financial condition. It is distributed to various bond-rating agencies, educational institutions and the State Controller for use in evaluating City finances.

The financial statements in the report are prepared on a generally accepted accounting principles (GAAP) basis. It should be noted the net assets and fund balances reported in the CAFR do not reconcile in all funds to the budget report or the annual budget document. This is because net assets and fund balances (equity) are reported in the CAFR without regard to availability of funds for current budgetary purposes. Balances used in the budget are those amounts which are available in the coming fiscal year. Audited balances indicate the estimates used in the Fiscal Year 2002-03 budget were reasonably accurate and do not require budgetary corrections.

Single Audit Report

As a recipient of Federal and State funds, the City is responsible for ensuring that an adequate internal control structure is in place in order to maintain compliance with applicable laws and regulations related to the purpose of the funds.

As a part of the City's single audit, tests were made to determine the adequacy of the internal control structure, including that portion of the structure related to Federal financial assistance programs, as well as to determine that the City complied with all applicable laws and regulations. The results of the City's single audit for Fiscal Year 2001-02 indicated no instances of material weaknesses in the internal control structure or violation of applicable laws and regulations.

Bicycle Pedestrian Projects

The City receives allocations of Transportation Development Act funds for pedestrian and bicycle projects through the Metropolitan Transportation Commission (MTC). The regulations relating to these allocations require a separate audit report be prepared.

The results of the audit show the City presented the information fairly and that it was in compliance with regulations governing these allocations.

Appropriations Limit Calculation

Article XIII (B) of the State Constitution, also known as Proposition 4 or the Gann Amendment, established an annual appropriations limit for governmental entities and specified certain indicators to be used in calculating the annual appropriations limit increase. The appropriations limit calculation for Fiscal Year 2001-02 is \$133,742,915. Appropriations subject to limitation total \$52,324,563. Accordingly, the City is substantially under the Constitutional limit on appropriations funded from taxes.

Client Communication from Independent Auditors

As part of the City's annual external audit, the independent accounting firm of Maze & Associates reviews and comments on the City's records and internal controls. The comments are intended to advise management of the existence of any material weaknesses in the City's internal control structure, provide assistance to City staff for improving its records and operations and communicate other advisory information such as future accounting and reporting requirements that may have an effect on the City.

Maze & Associates states no material weaknesses were noted in the internal control structure and its operations. A material weakness is a condition whereby the design or operation of internal controls would not detect material errors or irregularities in the financial statements in the normal course of operations. This is the eighth consecutive year there were no comments on the City's financial operations and is an independent vote of confidence in the strength of our internal control processes.

Mr. Scott Maze will be present to address any Council questions.

PUBLIC NOTICING—Agenda posting.

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